VISIT…

What the market makers and pros dont want you to know

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- **Main Points:**
  - There are a few things that professional traders and market makers do differently from the general daytrading public.
  - Capitalizing on these tactics and protecting yourself, moving quickly and with more concentration, will help you to profit consistently in the market.
  - You should not try to make a consistent living trading Nasdaq stocks without investing in level2 equipment and quotes.

Examples:

What the Daytrading Pro's Don't Want You To Know

How You Can Make the Market & Frontrun

Professionals do not make their living buying stock at 30 1/2 and selling at 33 for a 3-point gain.

We make much of our living off the less dramatic but more consistent order flow derived from buying on the bid and selling at the ask many times throughout the trading day ; this works in flat and choppy markets.

Farrell's book has some ok insight into doing this for listed stocks; but it's not a very good book imo.

If I can join the ISLD bid for 1K shares NOVL at 17 7/16 and then offer it out on the ask at 17 5/8 I've just taken $187 profit off the street. I do this 20 times in a day and I've made $3600/day income. Not bad. If I really nailed the bottom (rare) and use trailing stops I'll take even more off the street.

If I really want the stock I may split the market and offer to buy 1K shares at 17 15/32. This is my "plan b". Unless the stock

is in a dramatic upswing with no sellers in sight, I almost never - REPEAT NEVER PAY THE ASK. For 1K shares I'm down $62 + commis. already if I do that. I can't make a living paying up 2 spreads. Neither can you.

Concealing Patterns for Large Orders

- Many times a market maker like MSCO will get an institutional buy order for, say 200K shares of a stock. He doesn't want you to know about it, or else you'd buy too, and the price would go up. He'd look bad to his client.
- What do you do? Look for whether the mm stays on the bid consistently, the size of blocks that are being traded, the overall volume of the stock at that minute, and where his "trade box" is at. (trade box = the spread between where he buys vs sells the stock, eg MLCO above is at 17 7/16 x 5/8).
- If he returns to the inside bid more often in size (10) than the ask, he is probably a buyer. But, he will frequently camouflage his intentions using ISLD/INCA/other ECNs (See next point).

Detecting mm's on INCA/ISLD

- Market makers (and us too, for that matter) like SBSH can route their orders several different ways: INCA/ISLD/Selectnet/etc.
- So, you may see SBSH offering to sell 3 spreads away from the market, but he's really selling a boatload via ISLD on the inside ask.
- **How we detect this is to see how many times the order is refreshed**. If you see ISLD 24 1/4 ask 10 size and yet time and sales shows over 40K being sold at that price, for example, you know there's probably one or more market makers routing their orders on ISLD. Their "public

- **This is why "tape-reading" is such a vital skill you must master.** Homework assignment: watch the tape and 1-minute chart for one of your stocks that has over 2M average daily volume. See if you can detect tape support and resistance levels, along with the "pivot points",

face" is what they show on level 2, the "true action" happens when orders are routed via different ECNs to the market. Know what to look for.

where stock is changing hands between the market (eg at 24 1/32 for the l2 box above).

Shorting with the ax

- **If you want to daytrade for a living,** it will be much easier if you learn how to short as well as go long.
- More money can be made shorting than going long; however I'd recommend getting at least 6 months experience daytrading the long side first.
- You have to be able to play both sides of the market to succeed at daytrading.
- You should have no preconceptions about what your stock is going to do over the next hour; you are a speedboat darting in and out of positions in response to the larger trend: up, down or sideways.

Shorting with the ax: first of all figure out how to identify the ax. This link will give you some likely candidates for your particular stock; just look at who in the top 3 is one of the major players (MSCO MLCO SBSH GSCO). Ignore nite, pwjc, mash etc.

Next, make sure the market direction is in a selling mode. This can be at the open (shorting an open gap up), or a safer short at lunchtime, on a stock that's making lower highs and lower lows. The open gap short will probably be covered within 15 to 45 minutes, while a short during lunchtime will probably be covered by 2pm.

Find out which ax stays at the inside ask and keeps refreshing his bid. He may back away now and then to avoid being obvious, or he may keep selling. Enter a sell order at the uptick you feel is a good place to short, and of course enter your stop market buy order after receiving confirmation.

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